StraightTalk

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Morning Party?

August is a great month for me. Aside from traditionally slower days in the markets and more time at the pool or the beach – it is also my birthday month – and the time of year for the most important sporting event of them all, the Setta Cup.

To borrow a phrase from Jim Nantz about The Masters – this is a tradition unlike any other. All year, I look forward to my annual trek to the mountains of Virginia for a long marathon weekend of golf with a dozen lifelong friends. At this tournament, named for our beloved fraternity house cook, we play a lot of golf (not particularly well,) have a lot of great food and drinks, and enjoy an even better time catching up with each other. It began back when some in the group were unmarried, and now there are some of us with married children, and even one with a grandchild on the way!

On a larger but less personal sports stage, August also signals the return of college football each year. It has always been interesting to me that players don't mind a noon game time – because they just get up that day and play, versus having to wait around for a late afternoon or evening kickoff. However, most fans do not like the games that begin at midday because it means a very early start to tailgating! Whether you are driving up I-64 to Charlottesville for a sedate tailgate, or you are headed to the gravel lots outside Carter Finley Stadium for a more raucous Wolfpack tailgate, or even better, you are headed to a professional SEC tailgate further south – the one thing they all have in common is a 9:00 am tailgating time. And it is a well-known fact *that parties starting in the morning do not go late into the night*.

This is where we find ourselves right now with the A.I. frenzy. I am not a doubter of the enormous future efficiency and productivity improvements that this game-changing technology will bring to the Great Companies and our society overall – but it is now turning to evening at the trading party for some of these A.I. darlings. For those lucky enough to have recognized a new kind of chip technology in video gaming, which then morphed into what is known as GPU chips (rather than traditional CPU ones) – those share prices have shot into the stratosphere. For the more casual observer who has already witnessed multiple doublings of share prices thinking of "jumping in" now – that morning party ended a long time ago, and you are arriving near the end of the day. Put simply, the share price appreciation trajectory of these A.I. companies is not likely to continue.

I recently wrote in the Halftime Report about the dot.com historical precedent for technology breakthroughs that subsequently become populist investment ideas. But there are many more than just the dot.com example. Whether it was the 17th century tulip mania, or the 19th century picks-and-shovels craze in the gold rush, or the investing boom in any car company with "Motors" in the name in the early 20th century – in each case, at some point researching the business fundamentals got left behind, and emotional exuberance to buy at any price took over. (The *Fear of Missing Out* is a very powerful emotion.)

Of course, tulips, picks & shovels, and cars are still around – but many of the companies swept up in those crazes fizzled out. Those that wisely stuck to the infrastructure of the boom, however, have descendant companies that remain profitable today. Using the gold rush as just one example, Domingo Ghirardelli discovered that a full day of mining left men hungry for sweet chocolate and built a company on that idea. Henry Wells Fargo started the courier company, American Express, and later with other investors, created a bank called Wells, Fargo & Company to handle that courier business. Perhaps the

most well-known example of staying out of the prospecting frenzy yet succeeding by supplying it was a man named Levi Strauss. Strauss, a German immigrant who operated a dry goods store, saw the need for durable clothing for those miners and prospectors. He and his tailor created a tough washable cotton denim and added copper rivets for reinforcement – and blue jeans were born.

As always, this is perspective, not advice to invest in any of those companies. However, it is an important history lesson that booms and busts come and go, but well-run, durable franchises built on strong competitive positions in their markets survive, even when the "technology" of the day sometimes doesn't.

Alas, when your Uber driver, or hair stylist, or golf course starter is talking about investing in Nvidia *after it is up 2,900% in five years* – look out. Those who let go of fundamental analysis and get swept into the buying frenzy du jour are doomed to learn the lessons of history again.

None of this means that tech stocks, or more specifically chipset manufacturers, are headed for a collapse. Unlike the dot.com era, these companies have a real product with a decade of demand ahead, and already have significant earnings – in other words, they are much more than a story on the back of a cocktail napkin. However, the old Wall Street expression "your profit margin is my opportunity" means that many more companies will join the race for making these Graphics Processing Unit chips – and competition will mean lower profit margins for today's leaders, and lower product prices for all of us in the future. It is highly likely this morning party could end with those companies trading flat or slightly down for quite awhile as their price and earnings seek an historic equilibrium.

However, therein lies the opportunity ahead for us, in my opinion. While Standard & Poor's research reports that 66% of the market's return for the first half of this year came from just seven companies – the next year and a half could show us the other side of that coin. While still profitable and growing, the "Magnificent 7" are expected as a group to see their rate of growth fall from 50% to 17% in the next year. The other 493 stocks? Their earnings growth is projected to improve from -1% to 19% over that same period according to FactSet research.

A casual observer of the index might just see a slowing in the rate of increase, but many portfolios (which are not nearly as heavily weighted in the Mag 7) could see an increased rate of appreciation over the next year, as a much larger group of companies begin to see their growth accelerate. A broadly diversified portfolio more accurately reflects a broadly diversified economy – and the big picture for 2025 and beyond is about more than just A.I.

Speaking of the big picture, this chart is one of my favorites from the legendary Dr. Jeremy Seigel, whom I have had the pleasure of meeting in person. His book, "Stocks for the Long Run" is the holy grail for investors and offers historic evidence to ignore the doomsday financial news media, warning us daily of every potential calamity lurking around the corner. The chart shows that a dollar in 1802 is worth 4 cents today, but invested in gold has grown to almost four dollars. Better yet, that dollar invested in bonds is $1,855 – *but invested in stocks is worth over $2 million today.* Just invest and hold on for the compounding!

This sounds simple, but can often be hard to execute. Avoid watching the news, don't stay at the morning party too long, remain diversified, and keep the faith even in a tumultuous political year. The future remains bright for the Great Companies and our economy. Enjoy your month of August!

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